

East Lansing - Meridian Water and Sewer Authority

Financial Report

June 30, 2008

East Lansing - Meridian Water and Sewer Authority

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Independent Auditor's Report

To the Board of Trustees
East Lansing - Meridian Water and
Sewer Authority

We have audited the accompanying basic financial statements of East Lansing - Meridian Water and Sewer Authority (the "Authority") as of June 30, 2008 and 2007 and for the years then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of East Lansing - Meridian Water and Sewer Authority at June 30, 2008 and 2007 and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (identified in the table of contents) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Plante & Moran, PLLC

November 5, 2008

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of the statement of net assets, the statement of revenue, expenses, and changes in net assets, and the statement of cash flows. Along with the notes, they provide detailed financial information concerning the Authority. This section, the management's discussion and analysis, is intended to provide an overview of the Authority's financial condition, result of operations, and other key information.

Financial Overview

In analyzing the Authority's financial position, it is important to recognize the mission of the Authority. From a financial perspective, the Authority's core objective is to manage the long-term costs of providing purified water to the municipalities. In essence, the Authority acts as a conduit for its two municipalities. The amounts charged to the municipalities approximate the operating costs incurred by the Authority in providing purified water. The key financial statistics for the Authority, therefore, relate to measurement of the ability to reduce total costs to the municipalities (as opposed to the ability to accumulate financial resources).

	2008	2007	2006
Total operating expenses	\$ 2,902,587	\$ 2,630,518	\$ 2,655,356
Total water production (in thousands of gallons)	2,394,578	2,272,118	2,303,642
Cost per thousand gallons	\$ 1.21	\$ 1.16	\$ 1.15

The cost per thousand gallons increased slightly in 2008 compared to the two previous years. Costs relating to the purchase of water from the Board of Water and Light as well as the removal of spent lime increased in 2008 causing the cost per thousand gallons to increase.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

The Authority's net assets decreased in total by \$505,420 or 6.9 percent from 2007. Net assets had decreased by \$147,371 or 2.0 percent from 2006 to 2007.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets			
Capital assets	\$ 6,413,651	\$ 6,719,628	\$ 7,007,824
Other assets	<u>652,207</u>	<u>1,146,397</u>	<u>827,995</u>
Total assets	7,065,858	7,866,025	7,835,819
Liabilities	<u>279,194</u>	<u>573,941</u>	<u>396,364</u>
Net Assets			
Invested in capital assets - Net of related debt	6,413,651	6,719,628	7,007,824
Unrestricted	<u>373,013</u>	<u>572,456</u>	<u>431,631</u>
Total net assets	<u>\$ 6,786,664</u>	<u>\$ 7,292,084</u>	<u>\$ 7,439,455</u>

The total assets of the Authority decreased \$800,167 from one year ago and increased \$30,206 from 2006 to 2007. Assets decreased in the current year due to depreciation of capital assets and planned use of cash on hand for the spent lime removal. Assets increased slightly from 2006 to 2007 with a decrease in the value of capital assets due to depreciation which was offset by an increase in cash and investments due to additional monies being collected for the spent lime removal completed in fiscal year 2008.

The decrease in liabilities of \$294,747 from prior year is primarily due to the payment for the scheduled spent lime removal. The increase in liabilities from 2006 to 2007 of \$177,577 was a result of the additional spent lime accrual.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

The following table shows the change in net assets:

	2008	2007	2006
Intergovernmental billings	\$ 2,810,266	\$ 2,823,937	\$ 2,475,314
Other operating revenue	-	39,019	35,653
Operating expenses	2,902,587	2,630,518	2,655,356
Net (loss) income from operations	(92,321)	232,438	(144,389)
Nonoperating revenue	26,973	34,946	25,523
Nonoperating expense	(440,072)	(414,755)	(446,973)
Net loss	<u>\$ (505,420)</u>	<u>\$ (147,371)</u>	<u>\$ (565,839)</u>

Intergovernmental billings are the contributions from the municipalities to fund operating expenses. In 2008, intergovernmental billings decreased less than 1 percent while operating expenses increased approximately 10 percent due to an increase in water purchase costs and spent lime removal costs. This resulted in a net operating loss of \$92,321 in the current year. In 2007, intergovernmental billings increased 14 percent while operating expenses decreased slightly, less than 1 percent, primarily due to a budgeted equipment replacement reserve amount of \$88,000 as well as an expected increase in contract services which did not transpire during the year. This resulted in net income from operations of \$232,438. Nonoperating expenses decreased slightly due to no return of excess billings to the municipalities.

Capital Asset and Debt Administration

The Authority incurred costs in fiscal years 2002 and 2001 related to the construction of two storage facilities and interconnect sites by the Board of Water and Light. These interconnect sites will allow the Board of Water and Light to provide water production to the Authority. There was no construction in 2008 or 2007 related to the interconnect sites. The Authority has plans to complete one additional interconnect site with the Board of Water and Light in the near future.

The Authority has no definite plans to incur debt financing in the near future.

Economic Factors and Next Year's Rates

The expected production of water by the Authority for the next fiscal year should remain consistent to current year production. As a result, the related operating expenses and amounts contributed by the municipalities should not substantially change.

East Lansing - Meridian Water and Sewer Authority

Management's Discussion and Analysis (Continued)

Contacting the Authority's Management

This financial report is intended to aid our citizens, customers, and other interested parties in understanding the Authority's financial condition. If you have questions about this report or need additional information, please contact Jill Martinez at 517-319-6875.

East Lansing - Meridian Water and Sewer Authority

Statement of Net Assets

	June 30	
	2008	2007
Assets		
Cash and cash equivalents (Note 2)	\$ 281,439	\$ 839,544
Investments (Note 2)	321,044	258,682
Inventory	37,352	48,171
Due from municipalities	12,372	-
Capital assets - Net (Note 3):		
Assets not subject to depreciation	411,907	277,812
Assets subject to depreciation	<u>6,001,744</u>	<u>6,441,816</u>
 Total assets	 7,065,858	 7,866,025
Liabilities		
Accounts payable	105,459	70,975
Accrued payroll and related items	73,735	80,966
Other accrued liabilities	100,000	400,000
Due to municipalities	<u>-</u>	<u>22,000</u>
 Total liabilities	 <u>279,194</u>	 <u>573,941</u>
Net Assets		
Invested in capital assets - Net of related debt	6,413,651	6,719,628
Unrestricted	<u>373,013</u>	<u>572,456</u>
 Total net assets (Note 8)	 <u><u>\$ 6,786,664</u></u>	 <u><u>\$ 7,292,084</u></u>

East Lansing - Meridian Water and Sewer Authority

Statement of Revenue, Expenses, and Changes in Net Assets

	Year Ended June 30	
	2008	2007
Operating Revenue		
Intergovernmental billings from sale of water:		
City of East Lansing	\$ 1,107,612	\$ 1,128,655
Meridian Township	1,702,654	1,695,282
State wellhead grant	-	39,019
Total operating revenue	2,810,266	2,862,956
Operating Expenses		
Salaries and wages	618,594	622,590
Fringe benefits	195,046	194,084
Pension (Note 5)	54,537	57,785
Utilities	425,326	391,608
Operating supplies	349,184	336,953
Purchase of water from BWL	526,631	392,478
Grant expenses	-	40,000
Repairs and maintenance	295,156	241,919
Outside services	22,768	23,183
Rentals	21,863	22,856
Administrative fees	25,000	25,000
Insurance	65,759	69,260
Communications	11,146	9,684
Spent lime removal (Note 9)	288,000	200,000
Miscellaneous	3,577	3,118
Total operating expenses	2,902,587	2,630,518
Operating (Loss) Income	(92,321)	232,438
Nonoperating Revenue (Expenses)		
Interest income	26,973	34,946
Loss on disposal of assets	(20,625)	-
Depreciation	(419,447)	(414,755)
Total nonoperating expenses	(413,099)	(379,809)
Net Loss	(505,420)	(147,371)
Net Assets - Beginning of year	7,292,084	7,439,455
Net Assets - End of year	<u>\$ 6,786,664</u>	<u>\$ 7,292,084</u>

East Lansing - Meridian Water and Sewer Authority

Statement of Cash Flows

	Year Ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	\$ 2,796,519	\$ 2,833,510
Cash received from grants	-	39,019
Cash payments to employees for services rendered	(875,408)	(814,470)
Cash payments to suppliers for goods and services	<u>(2,309,732)</u>	<u>(1,652,862)</u>
Net cash (used in) provided by operating activities	(388,621)	405,197
Cash Flows from Capital and Related Financing Activities -		
Payments for the acquisition or construction of capital assets	(134,095)	(126,559)
Cash Flows from Investing Activities		
Interest received on investments	26,973	34,946
Purchase of investments	<u>(62,362)</u>	<u>(13,399)</u>
Net cash (used in) provided by investing activities	<u>(35,389)</u>	<u>21,547</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(558,105)	300,185
Cash and Cash Equivalents - Beginning of year	<u>839,544</u>	<u>539,359</u>
Cash and Cash Equivalents - End of year	<u>\$ 281,439</u>	<u>\$ 839,544</u>
Reconciliation of Operating (Loss) Income to Net Cash from Operating Activities		
Operating (loss) income	\$ (92,321)	\$ 232,438
Adjustments to reconcile operating (loss) income to net cash from operating activities - Changes in assets and liabilities:		
Decrease (increase) in inventory	10,819	(14,391)
Decrease in receivable due from State of Michigan	-	9,573
Increase (decrease) in accounts payable	34,484	(3,362)
(Decrease) increase in accrued payroll and related items	(7,231)	2,204
(Decrease) increase in other accruals	(300,000)	200,000
Decrease in due to/from municipalities	<u>(34,372)</u>	<u>(21,265)</u>
Net cash (used in) provided by operating activities	<u>\$ (388,621)</u>	<u>\$ 405,197</u>

Noncash Activities - There were no significant noncash capital and related financing or investing activities during the years ended June 30, 2008 and 2007.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 1 - Significant Accounting Policies

The East Lansing - Meridian Water and Sewer Authority (the "Authority") was jointly incorporated by the City of East Lansing and Meridian Township (the "Municipalities") for the purpose of obtaining financing to construct water processing and purification facilities and selling purified water to the Municipalities.

Contributions from the Municipalities for the acquisition of capital assets are credited to nonoperating revenue. The Municipalities' shares of the Authority's operating costs are based on their respective annual water consumption. Depreciation, which is allocated in proportion to the Municipalities' consumption percentages in effect at the time the assets were purchased, is not included as a reimbursable operating cost (see Note 3).

Basis of Accounting - The Authority utilizes the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Private sector standards of accounting issued prior to December 1, 1989 are generally followed, unless those standards conflict with standards of the Governmental Accounting Standards Board; the Authority has elected not to follow private sector standards issued after November 30, 1989.

Cash and Cash Equivalents - The Authority considers all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Investments - Investments are comprised of certificate of deposits with an original maturity of more than three months and are stated at fair value.

Inventories - Inventories are valued at cost, on a first-in, first-out basis, which approximates market value.

Capital Assets - Capital assets are recorded at cost. Depreciation is computed by the straight-line method based on the estimated useful lives, which range from 10 to 40 years, except for wells that have an estimated useful life of 80 years.

Return of Reserve to Municipalities - Pursuant to a decision by the board annually, the Authority reviews the contributions by the respective Municipalities. The contributions are analyzed, and a return to the Municipalities in excess of operating expenses may occur.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. A local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investments as allowed by the state statutory authority as listed above. The Authority's deposits and investment policies are in accordance with statutory authority.

The Authority's deposits and investments are included on the statement of net assets under the following classifications:

	2008	2007
Cash and cash equivalents administered by the City of East Lansing for operations	\$ 108,225	\$ 620,580
Cash and cash equivalents	173,214	218,964
Investments - At fair value	321,044	258,682
Total	<u>\$ 602,483</u>	<u>\$ 1,098,226</u>

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 2 - Deposits and Investments (Continued)

The Authority's cash and investments are subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At June 30, 2008, the Authority had \$402,484 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. At June 30, 2007, the Authority had \$898,226 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	July 1, 2007	Additions	Disposals	June 30, 2008	Depreciable Life - Years
Capital assets not being depreciated:					
Land	\$ 277,812	\$ -	\$ -	\$ 277,812	-
Construction in progress	-	134,095	-	134,095	-
Subtotal	277,812	134,095	-	411,907	
Capital assets being depreciated:					
Equity in BWL interconnect facility	854,188	-	-	854,188	10
Water treatment plant	7,102,252	-	150,000	6,952,252	10-40
Wells, mains, and equipment	5,770,263	-	-	5,770,263	10-80
Subtotal	13,726,703	-	150,000	13,576,703	
Accumulated depreciation:					
Equity in BWL interconnect facility	541,354	85,419	-	626,773	
Water treatment plant	4,239,616	185,252	129,375	4,295,493	
Wells, mains, and equipment	2,503,917	148,776	-	2,652,693	
Subtotal	7,284,887	419,447	129,375	7,574,959	
Net capital assets being depreciated	6,441,816	(419,447)	20,625	6,001,744	
Net capital assets	\$ 6,719,628	\$ (285,352)	\$ 20,625	\$ 6,413,651	

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 3 - Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2007 was as follows:

	July 1, 2006	Additions	Disposals	June 30, 2007	Depreciable Life-Years
Capital assets not being depreciated -					
Land	\$ 277,812	\$ -	\$ -	\$ 277,812	-
Capital assets being depreciated:					
Equity in BWL interconnect facility	854,188	-	-	854,188	10
Water treatment plant	7,005,857	96,395	-	7,102,252	10-40
Wells, mains, and equipment	5,740,099	30,164	-	5,770,263	10-80
Subtotal	13,600,144	126,559	-	13,726,703	
Accumulated depreciation:					
Equity in BWL interconnect facility	455,935	85,419	-	541,354	
Water treatment plant	4,056,773	182,843	-	4,239,616	
Wells, mains, and equipment	2,357,423	146,494	-	2,503,917	
Subtotal	6,870,131	414,756	-	7,284,887	
Net capital assets being depreciated	6,730,013	(288,197)	-	6,441,816	
Net capital assets	\$ 7,007,825	\$ (288,197)	\$ -	\$ 6,719,628	

Note 4 - BWL Wholesale Water Service Agreement

The Authority has entered into various agreements throughout the years with the Board of Water and Light of the City of Lansing (BWL) to provide connection and water services to both the City of East Lansing and Meridian Township. In conjunction with these agreements, certain interconnect fees are charged to the Municipalities.

Note 5 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The Authority participates in the Michigan Municipal Employees' Retirement System (MERS), an agent, multiple-employer defined benefit pension plan that covers all employees of the Authority. MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Authority represents a division within the actuarial report of the City of East Lansing. MERS issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, MI 48917.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Funding Policy - The obligation to contribute to and maintain MERS for these employees was established by the Authority's board of trustees and requires no contribution from the employees.

Annual Pension Costs - For the year ended June 30, 2008, the Authority's annual pension cost of \$54,537 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return and (b) projected salary increases of 4.5 percent per year. Both (a) and (b) include an inflation assumption of 4.5 percent per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 26 years.

Three-year trend information as of June 30 is as follows:

	Fiscal Year Ended June 30		
	2006	2007	2008
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 50,190	\$ 57,785	\$ 54,537
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	Actuarial Valuation as of December 31		
	2005	2006	2007
Actuarial value of assets	\$ 1,556,430	\$ 1,739,018	\$ 1,931,182
Actuarial accrued liability (AAL) (entry age)	1,653,619	1,840,842	2,003,905
Unfunded AAL (UAAL)	97,189	101,824	72,723
Funded ratio	94%	94%	96%
Covered payroll	\$ 591,111	\$ 615,286	\$ 540,209
UAAL as a percentage of covered payroll	16%	17%	13%

Postretirement Benefits - The Authority will provide healthcare benefits to various employees in accordance with the personnel rules upon retirement. Currently, the Authority has no retirees. The Authority will also include retirees and their spouses in a commercial health insurance policy, with no contribution required by the participant.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 5 - Defined Benefit and Contribution Pension Plans and Postretirement Benefits (Continued)

During the year, there were no premiums paid as there are no retirees. There is also no advance funding of health insurance for retirees.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year beginning July 1, 2008.

Note 6 - Defined Contribution Pension Plan

Effective July 18, 2007, the East Lansing-Meridian Water and Sewer Authority adopted a defined contribution plan. All new employees have the option of participating in the defined contribution plan; however, they do not have the option of enrolling in the defined benefit plan. Existing employees have the option to either remain in the defined benefit plan or to switch to the defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the plan adoption agreement, the Authority contributes up to 9 percent of employees’ gross earnings, based on employee contribution amounts. Employees become fully vested after four years of service.

The Authority’s total payroll during the current year was approximately \$619,000. The current year contribution was calculated based on covered payroll of \$29,364, resulting in an employer contribution of \$2,643 and employee contributions of \$587.

Note 7 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers’ compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for property loss, torts, errors and omissions, and medical benefits provided to employees’ claims and participates in the Michigan Municipal League risk pool program for claims relating to employee injuries (workers’ compensation). Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

East Lansing - Meridian Water and Sewer Authority

Notes to Financial Statements June 30, 2008 and 2007

Note 7 - Risk Management (Continued)

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 8 - Allocation of Net Assets

The allocation of net assets as of June 30 is as follows:

	2008	2007
City of East Lansing	\$ 1,841,673	\$ 2,007,792
Meridian Township	3,448,128	3,680,831
Unallocated	1,496,863	1,603,461
Total	<u>\$ 6,786,664</u>	<u>\$ 7,292,084</u>

Note 9 - Spent Lime Expense

The removal of spent lime is conducted only once every three years. The most recent three-year period began in 2006, where one-third of the estimated cost was accrued each year to match expenditures with the period of use. During the current year, the lime was removed and the remaining costs of disposal were expensed for a three-year total amounting to approximately \$688,000.

Note 10 - Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.